The Fruit Juice Market in China

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(Également disponible en français sous le titre, Le marché de Le marché des jus de fruits en Chine)

Prepared by the
Team Canada Market Research Centre
and the
Canadian Trade Commissioner Service

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THE FRUIT JUICE MARKET IN CHINA

Team Canada Inc • Équipe Canada inc

EXECUTIVE SUMMARY

Through steps to open its markets to international exporters, and to comply with World Trade Organization (WTO) membership application requirements, global trade with China has changed significantly in recent years. Opportunities are available to foreign companies to enter the Chinese fruit juice market, with tax and land incentives offered to lure foreign business to China's special economic zones, and tariffs lowered to invite imports.

The fruit juice market in China is dynamic, with many opportunities for international competitors to enter the sector. In 1995, Canada held 1.6% of the $63.9 million imported fruit juice market in mainland China, but that share slipped to 1.0% in 1996, despite the fact that the value of the market increased to $69.4 million. Imports of fruit juice to Hong Kong decreased to $119.1 million in 1998 from a high of $186.7 million in 1997. Canada supplied 5.4% of Hong Kong juice imports in 1998, and could dramatically improve upon its share of China's total fruit juice market.

Given recent trends towards healthier lifestyles among younger Chinese consumers, the nutritional advantages of fruit juice are expected to spur significant growth in the sector, providing good opportunities for Canadian exporters. Stronger promotion of the freshness, taste, variety of flavours, and nutritional benefits of juices will help gain market share and increase sales.

Exporters should note that as the market continues to expand, several international competitors are establishing a greater presence in China. The most notable international competitors are from the United States, Australia, South Africa, Brazil and Singapore.

Despite the Chinese government practising a degree of liberalization, exporters must overcome a number of obstacles. Two of the main constraints to exporting to China are high tariff duties of 55%, applied to all juices entering China, and a 17% VAT assessed on the cargo's value. In addition, a number of non-tariff barriers exist in the form of licences, quotas and other import controls.

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MARKET OVERVIEW

Boasting a population of more than 1.2 billion, China's place as the world's most populated nation is driving interest among companies from around the globe. However, due to the socialist economic principles traditionally practised by the Chinese government, China remains a relatively new market for international exporters looking to explore opportunities in foreign markets. Chinese markets are opening more to foreign suppliers, however the government still retains some control through import quotas, customs restrictions, and various centrally planned economic policies.

China's economy is doubling every eight years, and its GDP quadrupled between 1980 and 1995. Real GDP growth reached 9.7% in 1996, slowing to 8.8% in 1997. Although official estimates put 1998 GDP growth at 8%, it is more likely that growth will slow to 7%. China is increasingly active in the world economy, ranking as the world's 11th largest trading nation before the Hong Kong reunification. The nation accounts for 2% of world trade, and foreign trade accounts for 35% of its GNP.

The Chinese government is moving towards balanced growth, with trickle-down expansion from the rapidly growing eastern seaboard economy moving toward the interior. During the Ninth Five-Year Plan (1996–2000) period and thereafter, China hopes to attract investment into the interior of the country from foreign and domestic sources.

The Chinese government's desire to attract foreign companies is extremely beneficial to Canadian business. Canadian fruit juice exporters will therefore be able to take advantage of several Chinese government initiatives aimed a fostering foreign participation in China's fruit juice market.

Fruit juice is one component of the larger soft drinks market, which also includes carbonated beverages, mineral water, tea and coffee. In fact, the fruit juice segment has emerged as the second largest in China's soft drinks market (behind carbonates), posting sales of $1.3 billion in 1997 — more than doubling 1993 sales. Forecasts speculate that the fruit juice market could grow by as much as 40% between 1998 and 2002.

Fruit juice accounted for a decreasing share of the soft drinks market for the period 1993–1997, however fruit juice sales increased by 103%. Exporters should note that as carbonated, energy and health drinks become more popular, analysts predict that fruit juice may lose an even greater share of the soft drinks market, though its sales will likely increase.

Table 1. Percentage Growth of Soft Drinks Retail Sales Value by Sector in China 1993–1997

	1993	1994	1995	1996	1997
Carbonates	50.3	50.3	54.4	57.2	58.3
Fruit juice	28.4	28.0	24.3	21.8	20.3
Mineral water	13.7	12.3	11.1	10.4	10.0
Energy/health drinks	5.2	6.8	7.8	8.2	9.0
Vegetable juice	1.7	1.8	1.7	1.6	1.5
Ready-to-drink tea	0.7	0.8	0.7	0.8	0.9
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: *Euromonitor/Emerging Markets*, June 1998

With the growth of the fruit juice market, per capita consumption will likely increase, as juice becomes more popular. Per capita fruit juice consumption in China is roughly 10% of that in developed countries. Typically, marketing efforts have not focussed on the nutritional benefits of drinking juice, making juice susceptible to increased direct and indirect competition from carbonated drinks, tea, and fresh fruit. Many of these competing products also retail for a price equal to or less than that of juices. Marketing strategies promoting the quality, taste, variety of flavours, and nutritional benefits of fruit juices could quickly reverse this, and lead to increased consumption of juices.

Generally, fresh 100% juice is not very common in China, holding just 10% of the fruit juice market, and dominated by small and medium-sized local companies. Increased demand for juices, and growing awareness of its nutritional benefits may lead to a shift in production toward juices of higher pure juice content, however. The most popular fruit juice varieties in China contain only 10% to 30% real fruit juice, though large urban centres demonstrate a different trend. For instance, the most popular juices in Shanghai are Dole 100% juices, made in Guangzhou, in southern China. Local production enables Dole to keep prices low and affordable to many locals and foreigners.

Within the fruit juice segment, frozen concentrated orange juice is expected to remain

the top import, followed by frozen concentrated apple juice. In general, while orange and apple are the two most popular juice flavours, consumer preferences vary between northern and southern regions in China. Northerners tend to prefer more sour and stronger flavoured juice drinks, while southerners opt for sweeter and weaker flavoured drinks. The top fruit juice varieties in the north are apple, grapefruit and tomato, while the best sellers in the south are cherry, orange and apple juices. Sales throughout the country are highest during the spring, summer and Chinese New Year.

Asian Crisis

The financial crisis that began in parts of Asia Pacific in 1997 and continued through 1998 has had an impact on Canadian trade performance and opportunities in the region, however the crisis did not greatly affect China. Currency devaluations in countries such as Thailand, South Korea, Indonesia and Malaysia have not only increased the cost of Canadian goods for consumers in these countries, but have also increased competition for Canadian products, since goods from these countries can be imported more cheaply into countries such as Japan that have stronger currencies. Simultaneously, the crisis had a negative affect on Asian incomes, affecting consumer spending and consequently the demand for imports.

However, by early 1999, most of these economies had begun to "turn the corner," and it may be expected that exchange rates will also begin to strengthen, thus improving the competitiveness of imported Canadian products.

Key Factors Shaping Market Growth

From 1992 to 1994, the Hong Kong juice market declined significantly. Consumer anxiety and low confidence over the state of affairs in Hong Kong post-handover inhibited consumer spending, particularly on luxury goods such as fruit juice. Nearly two years after the reunification, however, Hong Kong's role as a major duty-free export destination and re-export port has not changed significantly, and consumer confidence is slowly returning.

"Socialized liberalization," the regulated opening of markets, has created opportunities in the markets for joint ventures and various importing options. This liberalization will allow foreign companies to establish production facilities within China to avoid the high tariffs charged to imports, thus making foreign products more competitive with local brands.

China's "one child" family planning policy, combined with increasing disposable income from two working parents and two sets of grandparents, has led to a largely urban "Little Emperor" phenomenon. Small financial rewards and extra attention paid to the

child result in more money being spent on luxury goods and treats, both by and for young children. Beijing Oasis, the Sino-Canadian producer of Rougemont juices, launched a children's radio program in 1996, and an associated kids' club to promote its juices. The products and advertisements were targeted at children in fun ways, to promote the nutritional image of their juices to both children and parents, and to educate the Chinese public about the merits of drinking fruit juice.

China's economic prosperity has fuelled higher disposable incomes among most Chinese consumers. Greater wealth, coupled with growing health concerns, has driven growth in the fruit juice sector. More specifically, young and middle-aged consumers (ages 25 to 50) based in urban areas have increased packaged/refrigerated fruit juice purchases, however cola soft drinks remain the most popular beverages in the market. Mineral water and freshly brewed tea also remain popular alternatives.

Another factor fuelling growth of the fruit juice market is the fact that tap water in most large cities and throughout rural China is undrinkable. Traditionally, the Chinese have remedied this situation by drinking tea or boiling water; however, many younger consumers are starting to turn to fruit juices, which have the appeal of added flavour and health benefits, as well as to bottled mineral water. In some cases, mineral water is the preferred alternative since it is less expensive than imported and locally produced fruit juices. However, Chinese consumers are generally unaware of the nutritional value of drinking juices, a situation easily remedied by more aggressive educational product promotion and advertising.

Opportunities

Demand for foreign fruit juice labels is increasing, since Chinese consumers view these products to be of better quality and with more durable packaging than local products. Although imported juices are usually priced much higher than local juices, Chinese consumers are generally willing to pay more for better quality, superior packaging, and better-tasting products. Increasing consumer demand for beverages with higher fruit juice content will have a positive effect on fruit juice imports.

Actual and Planned Projects

In January 1998, Seagram Company Ltd. announced a $55-million joint venture with the Chongquing Three Gorges Construction Group to build a technology centre, seedling nursery, and demonstration grove, to provide technical assistance to help farmers design groves, raise citrus trees, and do soil analysis. In early July 1998, PepsiCo bought Tropicana Beverages, the world's largest marketer and producer of branded juices, from Seagram Co. in an effort to enter the Chinese market. The purchase of Seagram, and thus Tropicana, gave PepsiCo a huge share in the market,

which will expand as the seedling nursery develops and its produce help establish a domestic fresh fruit source for future Tropicana juice production. Domestic production will lower the cost of the company's juices.

Kirin Beverage Corporation, a subsidiary of Japan's largest beer brewer, Kirin Brewery Company, Limited, formed joint ventures with companies in Shanghai and Wuxi in early 1997. The first joint company, formed with Shanghai Jin Jiang (Group) Company, called Shanghai Jin Jiang Kirin Beverage & Food Co., released Kirin Orange, a naturally coloured orange drink with 20% juice content, in January 1998. In April 1998, the drink was introduced in hotels and restaurants. The company has plans to add 100% apple and pineapple drinks to its product line.

Wuxi Kirin Beverage Corp., the second joint venture company, currently produces two juice-based carbonated drinks, Kirin Apple and Kirin Litchi. Kirin Beverages is promoting its products as healthy options, and will subsequently compete more directly in the juice market than in the market for cola-based carbonated beverages. Both joint venture companies have significantly increased their marketing staff for a strong "hands-on" marketing approach, and to monitor inventory levels and expiration dates of Kirin Beverage products in over 800 supermarkets. More aggressive marketing strategies are being undertaken in the hopes of strengthening direct ties with retailers, to compensate for China's poor distribution networks.

COMPETITIVE ENVIRONMENT

Local Capabilities

Growing 8 million tonnes of oranges per year, China is the third-largest producer of citrus products, after Brazil and the United States. Tapping local sources drastically reduces operating costs for both local companies engaged in fruit juice production and their foreign partners. However, large citrus production also means indirect competition from fresh fruit, as an alternative to juices. Some consumers prefer fresh fruit to juices due to flavour, nutrition, or cost.

Guangdong Jianlibao Group Co. Ltd., one of China's 500 largest companies, has one of the most recognized labels in China from its involvement in packaging, plastics, clothing canning, and drinks. While the company focusses on sports drinks, it also produces juice drinks. Jianlibao sources its ingredients domestically, except for passion fruit, which comes from Taiwan. The company uses a network of 30 agents, originally established for its sports drinks, to market its juice drinks in all of China's provinces, except Tibet and Xinjiang. The company also sells juice drinks to China Southern airlines and the local railway service companies.

Hai Kou Ye Shu Mineral Water Co. Ltd. markets the most successful brand of fruit juice, Ye Shu, which held over 6% of the Chinese fruit juice market in 1997. A rival fruit juice, Rong Shi, produced by Rong Shi Co. Ltd., held over 4% of the market in 1997.

There is no capability to process juice from fresh fruit in Hong Kong. Local processors add water, sugar, and other ingredients, such as colours and preservatives, to imported juice bases, which are usually in the form of concentrate. This process is used in the production of both refrigerated and non-refrigerated juices from imported juices and concentrates.

In the rest of China, there are hundreds of small and large juice drinks producers. For example, the Hainan Coconut Tree Group ranks first in China's fruit juice drink trade with a natural green coconut juice drink. Over 200 thousand tonnes of Natural Coconut Juice is produced annually, maintaining its number one position for five consecutive years.

International Competition

The major players in the juice import market in China and Hong Kong are the United States, Australia, Brazil, and Spain, with the majority of imported juices entering through Hong Kong. In 1998, $119.1 million in fruit juices entered China through Hong Kong, while only $13.6 million entered China through other ports.

Total juice imports into Hong Kong declined significantly in 1998, from imports of $186.7 million in 1997, while imports into China increased marginally. Much of the 1998 decline was the result of juice imports from the United States, which fell from $82 million in 1997 to $49 million in 1998. A $17 million decline in imports of frozen orange juice explained much of the difference. Australasia, the region with the second largest exports of juice to China and Hong Kong, experienced a 50% decline in exports to Hong Kong, reaching $17 million in 1998, following exports of $37 million the previous year.

Large surpluses in 1997 and flattened domestic demand led the Florida Department of Citrus (FDC) to investigate exporting juice to China. China does not allow the import of fresh fruit, thus juices must be made in the U.S. and subsequently shipped to China. Companies such as Citrus World Inc., which has competed successfully against Minute Maid and Tropicana orange and grapefruit juices in the U.S. market with its not-from-concentrate brand, Florida's Natural, stand to benefit from exposure to the Chinese market.

Xi'an Seastar Science and Technology Enterprises (Group) Company of China and

Lead International Company of the U.S. formed Xi'an Seastar Modern Drinks Co. Ltd. produce one of the most popular brands of juice in the Chinese market. "Rong" juices contain 40% juice, were recognized as the 1996 "National Famous Brand," and ranked first in 1997 sales in China.

Two soft-drink giants recently entered the fruit juice market, using different approaches in forging joint ventures. The first, PepsiCo, prefers bi-lateral arrangements, and invests to achieve the maximum company shareholding allowed by law in each country. PepsiCo's recent purchase of Tropicana gives it solid footing in the Chinese juice industry. Tropicana was introduced to China in the summer of 1998, shipped in pure-juice form from Florida and sold at US$5 per litre — triple the U.S. price. By the time Tropicana's orange juice production is operating in China, in several years, Tropicana hopes to lower its prices by half.

The second major foreign company, Coca-Cola, prefers a third-party joint venture in which Coca-Cola takes a minority share in a newly created joint venture company. In January 1996, Coca-Cola and Swire Beverages (Dongguan) Limited introduced the first brand of fruit juice specifically designed for the Chinese market under an international label. Called Tian Yu Di ("Heaven and Earth"), the fruit juice entered the market, gaining a 1% share by 1997, but incurred losses. The companies were aiming to break even by 1999.

Canadian Position

In 1998, Canada was the 10th-largest exporter of fruit juices to mainland China, claiming only 3.2% ($438 000) of China's fruit juice import market. Grape juice comprised nearly half Canada's exports in 1998, while apple juice accounted for 32% of exports. Except for 1997, Canada's market share has declined through the previous five years, despite steady growth in total market size. In 1997, Canada exported $777 000, gaining a 6.1% market share.

Canadian juice exports to Hong Kong were more significant, reaching $7.1 million in 1997, and $6.5 million in 1998. Apple and grape juices comprised the majority of exports in 1997, combining for 46% of exports. In 1998, apple juice alone accounted for 46% of exports.

Quebec-based Lassonde Industries Inc. increased its share of Hong Kong based Seanoble Investments Limited to 71% in December 1997, over partners Beijing-Oasis H.N.F. Co. Ltd., and Thai conglomerate Tipco. Seanoble Investments owns 61% of the joint venture company, Beijing Oasis, which produces and markets Rougemont juices in China. The remaining 39% of the company is owned by Hua Bei Cement Factory, of China.

Prior to entering the market, research showed that Chinese consumers preferred a sweet, thick nectar over Canadian-style fruit juice. Marketing a sweet nectar, using a premium price strategy, and marketing its product only in high-class restaurants in Beijing, Rougemont's 1995 sales reached $1 million. Since that time, demand has escalated throughout the country, and sales levels hit $13 million in 1997, though 80% of sales still occur at hotels and restaurants. The Rougemont label now offers orange, tangerine, and strawberry in addition to the original apricot, apple, and peach flavours.

Competitive Advantage through Canadian Government Policies and Initiatives

The Export Development Corporation (EDC) offers export financing and insurance to Canadian exporters. Additionally, insurance can be provided for larger transactions that are subject to the terms and conditions established by the buyer. The EDC prefers to work through letters of credit, banks credits or bank guarantees. Details and approval for financing will be considered case by case. For more information, please contact the EDC.

The Canadian Commercial Corporation (CCC) also offers small and medium-sized Canadian companies access to financing and better payment terms under the Progress Payment Program (PPP). The PPP concept was developed as a partnership between major Canadian financial institutions and the CCC. It enables the exporter's bank to open a project line of credit for the exporter's benefit, based on CCC approval of the project and the exporter's ability to perform. For more information, please contact the CCC.

The Program for Export Market Development (PEMD) is the government's primary international business development program. The objective of PEMD is to increase export sales of Canadian goods and services by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing risks involved in entering a foreign market. The PEMD refundable contribution is a minimum of $5,000 and a maximum of $50,000. Preference is given to companies with annual sales greater than $250,000 and less than $10 million, or with less than 100 employees for a firm in the manufacturing sector and 50 in the service industry. Eligible activities, the costs of which are shared on a 50/50 basis, include market visits, trade fairs, incoming buyers, product testing for market certification, legal fees for marketing agreements abroad, transportation costs of off-shore company trainees, product demonstration costs, promotional materials, and other costs necessary to execute the market development plan (Other components of the program deal with international bid preparation under Capital Project Bidding, and with Trade Associations when developing international marketing activities for their membership). For additional information, or to receive an application, please contact the International Trade Centre

in your province.

PRIVATE-SECTOR CUSTOMERS

Higher levels of personal income in China have resulted in more spending on fruit juices, and have also prompted the development of a more discriminating consumer. Price is still the first determinant when purchasing, but convenience and appearance are also considered. Transportation, tariffs and other import costs result in premium pricing on most imported foods, often making it difficult for foreign brands to compete with locally-produced items.

Consumers will also accept relatively higher prices when they are familiar with the brand. With the ever-proliferating number of players in the growing Chinese juice market, brand recognition will become very important. Other considerations in purchasing are flavouring, which creates perceptions of quality, sanitation (especially in large urban centres), and familiarity.

The number of supermarkets in China has grown over the past few years, with broader selections of foods, moving a significant amount of business away from the numerous smaller independent shops. Large selection of products and exposure to Western foods have made supermarkets and convenience stores very popular, particularly among younger generations of consumers. The growth will continue, as more supermarkets continue to open to service the growing demand.

Upscale Western-style restaurants are becoming common in some of China's larger centres. Both these and hotel restaurants are excellent venues for introducing new products since they cater to upper-middle-class Chinese consumers and expatriates, both of whom have higher disposable incomes.

Hotels, restaurants, airlines and railway companies are potential customers for fruit juice products. Joint venture products, or imported goods, particularly recognized brand names, tend to be items perceived as being of higher quality.

PUBLIC-SECTOR CUSTOMERS

Government Organizations

Despite increased liberalization, the Chinese government is still heavily involved in the retail sector. Typically, the government is involved in state-run shops, in which products are stocked behind counters and handed to customers by the staff. State-owned stores

have begun to lose business with the opening of supermarkets, which offer a wider selection of products.

Government Procurement Regulations

As a result of the increasing number of joint ventures being formed, the Chinese government investment approval authorities are beginning to require foreign companies to retain the local brand name of Chinese consumer goods companies that they may acquire. This stipulation was introduced because of previous instances of Chinese food products being phased out to promote the foreign brand following a take-over.

Every product sold by retail shops must be approved by the state commercial bureau and/or its provincial bureau.

MARKET LOGISTICS

Due to the fact that each region within China oversees its own food and beverage distribution system, inter-regional trade has traditionally been weak. As a direct result, local officials often regard regional economies as proprietary, frequently creating barriers for products from other regions or countries. The development of retail chains is expected to improve this situation. Companies exporting to China may wish to invest in their own distribution infrastructure, or form distribution agreements with other western companies, to avoid any logistical problems or delays.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. Exporters are therefore encouraged to explore regional or metropolitan markets rather than attempting national distribution. The eastern costal regions of China, which include the states of Shanghai and Beijing, represent the strongest consumer markets for imported goods.

In contrast to the situation in China is Hong Kong's thorough and efficient distribution infrastructure of roadways, railways, and shipping companies. Hong Kong's role as a major import port for China will likely continue for the next half century. In an advanced retail sector, Hong Kong also has an expanding number of supermarkets, convenience stores, hypermarkets and warehouse stores.

Channels of Distribution

Several ports of entry exist in China, however Hong Kong will retain its free trade port status for 50 years from the time of reunification, making it one of the preferable import

ports. Although it can be expensive to ship through Hong Kong and Southern China to reach a destination further north — particularly if it involves dealing with intermediaries along the way — the savings in tariffs can justify the overland transport expenses.

Business success in China depends upon good relationships, or *guanxi*, to ensure each element of the business can proceed smoothly, including clearing a product through customs. Many foreign companies have hired one person to deal with customs officers full-time, or using the same personnel to deal with customs issues, to develop a good relationship with the customs officers. Customs clearance times have been reported to gradually improve under these circumstances.

Distribution options available to the Canadian exporter include direct sales, existing distribution networks and warehousing, agents and sales representatives, or establishing independent distribution networks. Of these, the best option for the small exporter exploring the Chinese market is likely the use of an agent or sales representative. There are attractive aspects to each of the other options, however, the market and retail knowledge possessed by an agent, in addition to established business contacts, make it the most cost effective option. As the exporter becomes more successful in the Chinese market, other channels of distribution will likely be more feasible and advantageous.

One of the most common import methods used by foreign companies is through a third-party import-export company based in Hong Kong. While these companies can manage product clearance through customs, and subsequent distribution in China, many of these companies use grey channels, including smuggling and false documentation, to avoid Chinese tariff and VAT requirements. The producer loses control over distribution by using these routes, sometimes resulting in the product being sold at prices determined by the distributor and retailer. Some products also never reach their destination, instead being re-exported for prices several times higher than the original price.

Importers and Intermediaries

Chinese importers usually prefer to establish direct trade links with foreign suppliers or to work through an intermediary in Hong Kong. However, intermediaries are falling out of favour with most Chinese importers because importing products directly reduces costs for local companies. Canadian companies attempting to enter the Chinese market will find it more cost effective to approach suitable buyers directly in the local market. If a company is willing to incur the added expense, using an intermediary has the advantages of superior market intelligence and improved communication for customer servicing.

Direct Sales

Foreign companies generally are not permitted to directly engage in trade in China, other than through direct marketing of goods they have manufactured in China. The exception to this is that stores partially financed by foreign investment can import juice products directly, bypassing import and wholesale agencies. Beyond this, however, exporters need to use a domestic Chinese agent for both importation and marketing within the country. While companies are permitted to set up representative offices in China as a means of promoting their products and gaining market information, they are not allowed to engage in direct profit-making activity.

For companies with small sales volumes, there are benefits to establishing a sales branch office to perform direct sales to retailers. If utilizing a distributor, it allows the company greater control over distribution and enables the company to monitor the wholesaler. Alternatively, the company can bypass distributors and wholesalers, exerting more control over pricing, merchandising, and promotion of its products at retail stores. Direct contact with retailers will also help build business relationships.

Agents and Sales Representatives

Agents and sales representatives can provide vital links to distributors, wholesalers and the retail sector in general and can offer exporters a physical presence in the local market. Importation and distribution are undertaken by the manufacturer's agent or a trading firm. In cases where companies wish to establish their own distribution network, or to use another company's privately operated network, agents can assist in making contacts.

For initial forays into a new market, a good agent that knows the retail clientele, has good relationships with them, and knows the business etiquette in the market, is essential. As a new exporter becomes more accustomed to the market, and expands its knowledge of the market, less dependence upon the agent will be necessary.

Distributors and Wholesalers

Many established trading companies and distributors have exclusive agreements with their suppliers, which do not allow the distributor to represent a competitor. However, approaching distributors handling complementary products can lead to distribution contracts that will sell products through many of the same routes. If this kind of arrangement can be located and established, it could result in good cost and distribution advantages. Forming equity or contractual joint ventures can be advantageous to companies that plan to enter the rapidly developing markets of China and Asia. This is particularly true for companies whose products are expensive to ship.

Distribution through existing networks will be less expensive than establishing new networks.

State/private wholesalers handle the majority of distribution in China. They are often the result of decentralization of state companies, becoming regional private sector companies with good government contacts to facilitate customs clearance and minimize bureaucracy, but limited in geographic area served. Prices are often competitive, with rapidly improving services, however product damage through poor handling can occur.

Foreign wholesalers offer wider national or multi-regional service in China, in addition to a more modern range of distribution services. Distribution networks through foreign wholesalers are often extensive, and the exit cost is lower for the manufacturer if it needs to pull out of the market. However, foreign wholesalers are more expensive than domestic distributors, resulting in higher retail prices for the consumer. Local wholesalers are also generally more knowledgeable about the regional markets.

The choice of retailer to which the wholesalers deliver products is vital to the success of the product. Retail outlets in China can be classified into state-owned, collectively owned and privately owned enterprises, including individually owned distribution outlets.

State-owned outlets are responsible for most of China's large department stores and account for about 40% of retail outlets, though they carry few imported products.

Collectively owned enterprises consist primarily of co-operatives in villages and towns, although there are also a number of shops in large cities that operate under this system. These enterprises carry limited amounts of imported soft drinks. This retail distribution accounts for around 25% of the national distribution system. The Chinese government frequently exercises a large degree of control or supervision over the actions of these cooperatives.

Privately owned enterprises currently account for 20% of Chinese retail outlets, but their market share is predicted to grow at the expense of collectively owned enterprises. This sector includes the developing supermarket and hypermarket industry. Western-style supermarkets are new to China, but are developing rapidly. They carry the highest percentage of imported and Western-style fruit juices, and provide the best entry point for imported juices since they are geared towards more affluent Chinese consumers.

Local markets and convenience stores are the most prominent retail outlets for soft drinks, but this phenomenon is expected to change as the younger generations in China increasingly frequent new Western-style supermarkets.

Market-entry Considerations

Pricing

One of the main concerns when entering a new market is the pricing strategy. Endeavouring to enter the market by low product pricing may be futile if Chinese retailers mark up the price to boost their profit margins. Many foreign products are victims of premium pricing, despite marketing efforts to avoid this result. It may be necessary to endure this while trying to build better business relations with retailers through a Chinese agent. As brand recognition is established, and the product becomes more successful in the market, a move to produce locally will help lower manufacturing costs. The combination of lower manufacturing costs and being a local producer will help in lowering pricing, or increasing profit margins. However, a premium pricing strategy centred exclusively on restaurants worked extremely well for the introduction of Rougemont juices to the Chinese market.

Packaging

Packaging is a key consideration for successful product marketing. Packaging needs to be perfectly tailored to the unique conditions of the Chinese market as a whole (ie. adhering to Chinese packaging laws), while also appealing to the specific target consumers. For example, despite the fact that many Chinese consumers view it as unsanitary, laminated paper Tetrapak-style packaging is widely used in China, particularly by airlines and other institutional sectors, since it is more durable than other styles and allows for easier and more efficient storage. Package size is also an important consideration for many retail consumers, who prefer smaller packaging, since they tend to have little storage space in their homes. In addition, the fact that Chinese refrigerators tend to be smaller than those in North America means that there is little demand for multi-serving containers.

Advertising: Television advertising is the best means of reaching the huge mass market, and can be a key to increasing brand awareness and establishing brand loyalty among younger consumers (aged 18 to 35). While all forms of "comparative advertising" are banned, foreign advertisers can be successful by emphasizing quality and the image associated with the product. Exporters should note that in some cases the cost involved in advertising can be prohibitively high. Television advertising requires covering a broad range of channels, especially in Hong Kong. However, in contrast with North American homes, only a small percentage of Chinese families own televisions; therefore regional and market specific advertising is more advisable than a national campaign.

Outdoor advertising is also becoming more common. Wall posters, billboards, bus shelters and lamp-posts are all popular methods of outdoor advertising. Outdoor

advertising is a longer-term investment, but can be ineffective if not used in conjunction with strong in-store promotions and point-of-sale material. The producer must be able to create brand recognition among consumers. Foreign advertisers tend to emphasize quality and image associated with their products. Thus, the products from foreign companies are often perceived to be of higher quality and worth higher cost.

Advertising costs in China's major cities can be expensive, however, which has led many smaller consumer goods producers to focus on smaller provincial capitals instead. For example, Beijing Oasis (Rougemont juice) concentrates its advertising funds into cities such as Tainjin, Wuhan, and Harbin, where advertising costs one-tenth of advertising in Shanghai, Beijing, or Guangzhou. The popularity and brand awareness of its product filtered back into the major urban centres, creating a well-known product.

Transportation and Storage

Shipping by sea is the easiest and least expensive mode of transport. Many manufacturing plants are located, or are planned to be built, on the coast or along rivers, in order to take advantage of these natural transportation routes. The special economic zones, Xiamen, Shantou, Shenzhen, Zhuhai, and Hainan are all situated along the southeastern coast of China, and have full shipping access. Economic and technical development zone ports, with different regulations and economic benefits, are located along the full extent of the eastern seaboard.

Adequate amounts of storage facilities exist at most ports, but the quality of storage facilities is wanting. Most are adequate for general cargo, but companies importing frozen and refrigerated juices should note that these facilities are rarely climate controlled.

Once shipments reach China, rail is the cheapest form of transportation for locally manufactured goods, and offers access to more inland cities than any other mode of transportation. However, 10-12% of all freight is damaged due to mishandling. While domestic goods have priority, the addition of trains at fixed times and fixed prices between Beijing, Shanghai, and Chengdu have improved service. More routes have also been added to run between major urban centres and inland areas.

Trucking is the most efficient and cost effective distribution option, and has benefited from recent construction of new road systems linking major cities to surrounding regions. The government has also undertaken action to reduce the number of highway robberies and illegal toll charges enforced by police impersonators.

Suggested Business Practices

Canadian exporters need to understand the cultural nuances of doing business in China. Although productivity and output are important, they are usually secondary to good business relations. A combination of interpersonal relationships developed between business counterparts, and knowledge about the stability and permanence of the counterpart organization are key to good relations. The presence of a senior manager at negotiations is viewed as a guarantee of performance, and a sign of respect.

A formal introduction of all members of a delegation is important, and business cards should be exchanged among all members as well, with two hands, to show respect. If possible, have business cards translated into Chinese (the dialect will be dependent upon the region of China in which transactions are taking place), or have a translator write family names in Chinese on the card.

When distributing written company information in China, companies are encouraged to provide Chinese translations of the material, since senior decision-makers in Chinese organizations are often unable to read English. The effort of obtaining translations will be interpreted as an indication of your commitment to doing business with the Chinese company.

Import Regulations

High tariff duties continue to be one of the main obstacles to exporting to China. A 55% duty is applied to all juice varieties entering China. In addition, importers must pay a 17% VAT, assessed on the cargo's value. Unlike alcoholic beverages, no consumption tax is assessed against juices.

China maintains a large number of administrative controls to implement its trade and industrial policies, while having removed some non-tariff measures [NTMs], such as quotas and licensing requirements, on select items. China also restricts the type and number of entities within China that have the legal right to engage in international trade. Foreign exchange balancing regulations could also further restrict imports even for firms that possess the right to import. Moreover, despite recent moves to lower tariffs, China's tariffs remain prohibitively high on some products, while other tariffs have been successfully lowered. WTO membership negotiations aimed at lowering more tariffs for products entering China are continuing.

Non-tariff barriers are administered at national and sub-national levels by the State Economic and Trade Commission (SETC), the State Development Planning Commission (SDPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). These non-tariff barriers include licences, quotas and other import

controls. The level of imports permitted under these measures was determined through complex negotiations between the Central Government, the provinces, and Chinese ministries.

MOFTEC uses import licences to exercise an additional nationwide system of control over some imports. Many products are subject to both quotas and restrictions on top of import licensing requirements. For these products, MOFTEC must decide whether to issue a licence after permission has been granted by other designated agencies for importation. MOFTEC officials claim that import licences are issued automatically once other agencies have approved an import.

Although China's import approval process remains complex, China is taking some important steps to streamline the process and to reduce the range of imports subject to non-tariff barriers. Central Government agencies have published many of their import administration laws and regulations, a step that is making China's trade regime more transparent.

China acted to reduce tariffs pursuant to its bilateral commitments in an effort to boost its World Trade Organization (WTO) accession bid. The country brought its average import tariff down to 23% in 1997, while making tariff reductions on more than 4 000 tariff line items, and is committed to lowering its average nominal tariff to 15% by 2000.

In addition to tariffs, imports may also be subject to value-added and other taxes. Such taxes are to be charged on both imported goods and domestic products, but application has not been uniform, and these taxes may be subject to negotiation. China has used the combination of tariffs and other taxes to clamp down on imports that officials viewed as threatening domestic industries.

Businesses selling goods into China often complain about China's customs valuation practices, as different ports of entry may charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiations between business people and Chinese customs officers.

Since 1988, China has established a number of duty-free import/export zones and five special economic zones: three in southern Guangdong province, one in southern Fujian and one on the island of Hainan. These zones facilitate foreign investment and trade by offering lower business tax rates and operating costs, better investment climate, more developed infrastructure, and lower local taxes and rent. In deciding where to locate, some foreign firms have found that the willingness of authorities to cater to specific needs of the investor is more important than the official incentives mentioned above. Attracting business to their region for jobs and economic spin-offs

for the region result in benefits for companies, in addition to those provided in the special economic zones. Cheap labour, additional tax breaks, easing of construction restrictions, and low property and construction costs attract the business, while extra perks are developed for ownership and management. Though the special zones provide incentives, investors should bear in mind distance to the target market, as well as the availability of supplies and labour.

Documentation: A number of documents required for product entry into China, including:

- commercial invoices (always required; there is no specific format that they must follow);
- pro-forma invoice (may be required when negotiating the import contract);
- bills of lading;
- packing list (required for each shipment -- at a minimum, the list must note the weight and contents of each package);
- certificates of origin (may be requested, although a standard form is usually issued);
- sales contract;
- insurance certificate (required only if the exporter is insuring the shipment -- the Chinese usually insure the products themselves);
- import quota certificate (required for general commodities, where applicable); and
- import licence (required if the importer is not registered as a national foreign trade corporation).

Where applicable, inspection certificates issued by the State Administration of Import Commodity Inspection or its local bureau are required. Any special requirements should be spelled out in the importing contract for each transaction.

In general, exporters must comply with the instructions of the importer or shipper regarding the required number of copies of each document. The information in each document should correspond exactly to the details contained in other documents for the same shipment. The description of the goods must be clear and concise and must

incorporate all relevant details and costs. An official of the exporting firm (or authorized agent) is required to sign the respective documents.

Mail and parcel post shipments require postal documentation in place of bills of lading. Air cargo shipments require air waybills in place of bills of lading. A caption reading "The People's Republic of China" should appear on the documentation, and all parcels should be sealed.

Authentication of documents: The Chinese government requires that some documents be authenticated, such as certificates of sale and letters authorizing an exporter's local agent or importer to act on their behalf. Companies are encouraged to rely on their local agents to inform them of the specific requirements for their product. Documents should be notarized in Canada and can be authenticated at no cost to the exporter by forwarding them to:

Department of Foreign Affairs and International Trade
Authentication and Service of Documents (JLAC)
125 Sussex Dr., Ottawa K1A 0G2
ATTN: Mario Nuñez-Suarez
Tel: (613) 992-6602
Fax: (613) 992-2467

Local Standards, Certificates or Registrations

China continues to use standards and certification practices that their trading partners regard as barriers to trade. For manufactured goods, China requires that a quality licence be issued before goods can be imported into China. Obtaining such licences can be a time-consuming and expensive process. China often requires testing and certifications of foreign products to ensure compliance with standards and specifications unknown and or unavailable to the exporter. Trade commissioners at the Canadian embassies in Hong Kong or Beijing will be able to help exporters by providing updated information in these areas. The China Customs Authority is also listed in the contacts section of this report.

Despite market access agreements, China continues to use non-tariff based measures such as health, animal health, phytosanitary and food safety standards, and certifications to limit foreign competition. In particular, China's phytosanitary standards are often strict and unevenly applied, in excess of internationally accepted criteria.

The National Health and Quarantine Administration requires that all imported food items be affixed with a laser sticker indicating the safety of the product. Importers are charged five to seven cents a sticker, and the stickers must be affixed by state officials.

As of September 1, 1996, Chinese law requires that all food products (domestic and imported) have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer name and address, country of origin, ingredients, date of production, and product expiry date. Other information may appear on the label, but the Mandarin (simplified characters) language requirements must be met. New labelling requirements are consistent with what the consumer demands and will aid in protecting consumers, producers and retailers from fake, inferior or expired food entering the market.

While labels must be written in Chinese, it is recommended that exporters also include information in English (the appearance of which on products is not banned in China), as it helps market products and enhance product quality image by lending credibility to company claims that the product is either imported or produced by a joint venture.

Export Credit Risks, Restrictions on Letters of Credit or Currency Controls

Letters of credit account for almost 80% of all export financing and payment transactions to China. While open accounts may be used, they are not recommended for companies new to the Chinese market. Credit terms typically vary between 60 and 90 days.

Remittances in Renmimbi, the local currency, remain generally sound. Foreign exchange delays of one to two months are currently reported after local currency cover is made. Local currency delays average up to one month, and the import cover is currently six to eight months.

PROMOTIONAL EVENTS

Event / Description	Organizer
BevTek & BrewTek China '99 July 14-17, 1999 Shanghai, China Brewing & beverage production, bottling and packaging technology & equipment, ingredients & supplies, handling, storage, coding systems, dispensing, retail marketing displays.	Overseas Exhibition Services Ltd. 11 Manchester Square London, England W1M 5AB Tel: (44-171) 486-1951 Fax: (44-171) 413-8212 Internet: http://www.montnet.com
Food China' 99 / Hotel China '99 August 31 - September 3, 1999 Shanghai, China Food & food products; alcoholic & non-alcoholic beverages; products & services for the hotel & restaurant industries.	Hong Kong Exhibition Services Ltd Unit 901/902 9/F Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103
China Brew & Beverage '99 September, 1999 Beijing, China Brewing and beverage machinery, measuring equipment, environmental protection, labelling and packaging, and more.	Business & Individual Trade Fairs Unit 1223, HITEC 1 Trademark Dr. Kowloon Bay, Kowloon Hong Kong, China Tel: (852) 2865-2633 Fax: (852) 2866-1770
Food China 2000 / Hotel China 2000 June 20-23, 2000 Beijing, China Food & food products; alcoholic & non-alcoholic beverages; products & services for the hotel & restaurant industries.	Hong Kong Exhibition Services Ltd Unit 901/902 9/F Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103
China Brew & Beverage 2000 September 22-26, 2000 Beijing, China Brewing and beverage machinery, measuring equipment, environmental protection, labelling and packaging, and more.	Business & Individual Trade Fairs Unit 1223, HITEC 1 Trademark Dr. Kowloon Bay, Kowloon Hong Kong, China Tel: (852) 2865-2633 Fax: (852) 2866-1770

KEY CONTACTS AND SUPPORT SERVICES

Canadian Embassy
19 Dongzhimenwai Dajie
Chaoyang District
Beijing, PRC 100600
Tel: (86-10) 6532-3536
Fax: (86-10) 6532-4072
E-mail: td.bejing@bejing03.x400.gc.ca
Internet: http://www.dfait-maeci.gc.ca/ni-ka
Contact: Mr. Bruce Howard

Consulate General of Canada, Hong Kong
Commercial Division
13/F, Tower 1
Exchange Square
Central, Hong Kong
Tel: (852) 2847-7414
Fax: (852) 2847-7441
E-mail: commerce@hkong02.x400.gc.ca
Internet:
http://www.canada.org.hk/english/index.html

China Customs Authority
Director General
Customs General Administration of the People's Republic of China
Avenue Jian-Guo-Men Nei, 6
Beijing, P.R.C.
Tel: (86-10) 519-5244
Fax: (86-10) 519-4004

Department of Foreign Affairs & International Trade
China Division
125 Sussex Dr.
Ottawa, ON K1A 0G2
Contact: Ian Burchett
Tel: (613) 992-6129
Fax: (613) 943-1068

Department of Foreign Affairs & International Trade
Market Support Division
125 Sussex Dr.
Ottawa, ON K1A 0G2
Tel: 1-800-267-8376 or (613) 995-1773
Fax: (613) 943-1103

Agriculture and Agri-Food Canada
International Markets Bureau
930 Carling Ave., 10th Floor
Ottawa, ON K1A 0C5
Contact: Jane Morriset
Tel: (613) 759-7637
Fax: (613) 759-7506
E-mail: morrisetj@em.agr.ca

Alliance of Manufacturers and Exporters Canada
75 International Blvd., 4th Floor
Toronto, ON M9W 6L9
Tel: (416) 798-0000
Fax: (416) 798-8050
Internet: http://www.plantir.ca/the-alliance
E-mail: national@the-alliance.com

Business Development Bank of Canada
#400, 5 Place Ville Marie
Montreal, PQ H3B 2G2
Tel: 1-888-463-6232
Fax: (514) 283-0617
Internet: http://www.bdc.ca

Canadian Commercial Corporation
Metropolitan Centre
50 O'Connor St., 11th Floor
Ottawa, ON K1A 0S6
Tel: 1-800-748-8191 or (613) 996-0034
Fax: (613) 995-2121
Internet: http://www.ccc.ca
E-mail: info@ccc.ca

Export Development Corporation
151 O'Connor St.
Ottawa, ON K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
E-mail: export@edc4.edc.ca
Internet: http://www.edc.ca

National Health & Quarantine Administration of P.R.C.
No.4, Section 2, Anhuili
Chaoyang District, Beijing
100101
Tel: (86-10)64912732
Fax: (86-10)64912733

Agriculture and Agri-Food Canada

The Agri-Food Trade Service regional contacts:

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E-mail: abizadehf@em.agr.ca

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Tel.: (306) 780-7134
E-mail: gordonr@em.agr.ca

Rodney Dlugos
Edmonton, AB
Tel.: (403) 495-5526
E-mail: dlugosr@em.agr.ca

Max Xiao
New Westminster, B.C.
Tel.: (604)666-9353
E-mail: xiaom@em.agr.ca

Commercial Banks in China

Bank of America (Asia)
Consumer Business Center
1/F, Bank of America Tower,
12 Harcourt Road
Hong Kong
Tel: (852) 2847-5588
Internet: http://www.bankamerica.com.hk

Bank of China
10 Fuchengmen Nei Dajie
Beijing 100818, China
Tel: (86-10) 6601-6688
Fax: (86-10) 6601-6869
Internet:
http://www.bank-of-china.com/report/report_e/report96_e.html

Dao Heng Bank
The Center
99 Queen's Road
Central, Hong Kong
Tel: (852) 2218-2706
Fax: (852) 2285-3313
Internet: http://www.daoheng.com

Hang Seng Bank
Level 4, 83 Des Voeux Rd.
Central, Hong Kong
Tel: (852) 2825-5388
Fax: (852) 2801-4914
Internet: http://www.hangseng.com/hse.html

Bank of East Asia
19/F, Bank of East Asia Building
10 Des Voeux Road
Central, Hong Kong
Tel : (852) 2842 3467
Fax : (852) 2845 9747
Internet: http://www.hkbea.com

Dah Sing Bank
Central Branch
19 Des Voeux Rd.
Central, Hong Kong
Tel: (852) 2521-8118
E-mail: ops@dahsing.com.hk
Internet: http://www.Dahsing.com.hk/index.html

Hong Kong Bank
1 Queen's Road
Central, Hong Kong
Tel: (852) 2822-1111
Fax: (852) 2810-1112
Internet: http://www.hongkongbank.com

International Bank of Asia
International Bank of Asia Building
38 Des Voeux Rd.
Central, Hong Kong
Tel: (852) 2842-6222
Fax: (852) 2845-3596
Internet: http://www.iba.com.hk

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PR Newswire, "PepsiCo to Acquire Tropicana, World Leader in Branded Juices, from Seagram," July 20, 1998.

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United States Department of Agriculture. *Fruit Juice Market Profile, Hong Kong*, August 12, 1996.

Wall Street Journal. "Coke Launches Soft Drink in China," September 19, 1997, p. A8.

World Trade Atlas, 1999.

OTHER REFERENCE MATERIAL

Useful Internet Sites

Agri-Food Trade Service: **http://www.atn-riae.agr.ca**

Bureau of Monetary Affairs Ministry of Finance: **http://www.boma.gov.tw/english/index.htm**

Canadian Chamber of Commerce in Hong Kong: **http://www.cancham.com.hk**

Chinese Embassy in Ottawa: **http://www.buildlink.com/embassy**

China Business World: **http://cbw.com/business.html**

China Council for the Promotion of International Trade (CCPIT) and

China Chamber of International Commerce (CCOIC): **http://www.ccpit.org**

China, Hong Kong Business: **http://www.chinapoint.com/websites/directory/asia/categories.htm**

China Pages, China Business Information Resources: **http://www.chinapages.com**

China State Administration of Import and Export Commodity Inspection:
http://www.cyberway-to-china.com/ccib/home.htm

China Today: **http://www.chinatoday.com**

Consulate-General of Canada in China: **http://www.canada.org.hk**

Cultural Etiquette in China: **http://www.citsusa.com/etiquette.html**

Department of Foreign Affairs and International Trade: **http://www.dfait-maeci.gc.ca**

Europe-China-Hong Kong Business Directory: **http://www.chinapoint.com/china.htm**

ExpoGuide: **http://www.expoguide.com**

Exportsource: **http://www.exportsource.gc.ca**

Governments on the WWW: China: **http://www.gksoft.com/govt/en/cn.html**

Hong Kong Trade Development Council: **http://www.tdc.org.hk**

InfoExport: **http://www.infoexport.gc.ca**

Ministry of Foreign Trade and Economic Cooperation (MOFTEC), P.R.C.: **http://www.moftec.gov.cn**

Special Economic and Technological Development Zones: **http://www.sezo.gov.cn/eindex.htm**

Strategis: **http://strategis.ic.gc.ca/**

Tradeport: **http://www.tradeport.org**

Trade Show Central: **http://www.tscentral.com**

USDA: **http://www.fas.usda.gov**

World Bank: **http://www.worldbank.org**